

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: June 30, 2006

PAYROLL LETTER #06-012

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services DivisionRE: **DEFAULTED STUDENT LOANS**

Effective July 1, 2006, the withholding amount for defaulted student loans will increase from 10% to 15%. The Deficit Reduction Act of 2005 authorizes the U.S. Department of Education, California Student Aid Commission, EDFUND, and other guaranty agencies (guaranty agencies guarantee payment of a student loan in the event of default and are authorized to pursue collection via wage garnishment) to withhold 15% of disposable earnings for defaulted student loans. The 15% withholding amount does not apply to defaulted student loans collected by private collection agencies.

Defaulted student loans are identified in the payroll system as Deduction Code/Organization Code 339-008 and are automatically computed at 10% of disposable earnings, unless a specific amount is entered on the Salary Garnishment Form STD.639. Until the State Controller's Office can determine the feasibility of implementing a system change to compute at the increased rate, agencies/campuses must calculate the new 15% withholding amount for all affected new and existing defaulted student loans effective July 1, 2006.

New and Existing Defaulted Student Loans

All new defaulted student loan orders issued on or after July 1, 2006 will request 15% withholding of disposable earnings. Begin 15% withholding of disposable earnings for existing defaulted student loans once you have received notice from the guaranty agency. To process both existing and new defaulted student loans, complete Salary Garnishment Form STD. 639, check box 8F and enter the total garnishment amount in column 9. Check box 11D and enter the 15% of disposable earnings amount. If the employee has a salary change, it is the responsibility of the agency/campus to recalculate the withholding amount to ensure that 15% withholding of disposable earnings is maintained.

Please reference Payroll Letter #05-006, dated April 13, 2005 for information concerning the use of the most current Salary Garnishment Form STD. 639.

Contacts

Please reference the Payroll Procedures Manual (PPM) Section H300 - 328 for additional information concerning defaulted student loans.

If you have any questions concerning this letter, please contact Lynn Black at (916) 327-3926 or by email at lblack@sco.ca.gov. Revisions to the PPM are forthcoming.

JRH:LB:PMAB